Chapter-1

BUSINESS ENVIRONMENT

Q-1.1, What is business? What are its objectives?

Ans: All economic activities, which are carried out to fulfil material needs of society and pursued mainly to earn profits on regular basis.

The main features of business are follows:

1) Exchange of goods and services
2) Element of risk and uncertainity
3) It involves*R manufacturing, trading, mining, banking, transport and many other activities.
4) Profit is the main, but not the only objective of a business

The main objectives of business are as under:

1) Profitability :- Any private business is mainly established to earn profit on behalf of and for the benefits of its owners, who have assumed risk while investing their funds in the business. Profit serves both as a reward for taking risk as well as yardstik for measuring performance of the business.

Mining
Manufacturing

*R

2) Efficiency :- Every business should seek to achieve its objectives in the most effective manner to ensure optimum utilisation of natural, human, financial and non-financial resources.

3) Survival :- All business enterprise aim at long-term existance despite all the risks a[nd] uncertenaties. Survival is to be ensured in terms of competetion, enviornmental conditions, financial strenth, ownership and so on.

4) Stability :- Business enterprise also aim at having a constant operation and performance with minimum tensions, hindrances, flucations.

5) Growth*:- If stability and survival is ensure[d] then business aims at growing in the future as much as it can. Growth can be measured in terms of increase in revenue market share, number of employees and products and so on**.

———x———x———x———

* Most important objective of business

** And so on like -> Consolidation & Diversification of Product.

for for rise small

Q:- 1.2, What is business enviornment ? What are its Characteristics and main component ?

Ans: Business Enviornment refers to collection of all internal and external forces that are related to a business and influnces its working in some way.

The main Charcteristics of business enviornment are as follows:-

1) The Enviornment is complex :- Business enviornment is made up of numerous factors events, and Conditions having variety of influnces over the business. It is difficult to comprehend all factors that constitute the enviornment and their influnce.

2) Enviornment is Dynamic :- Most of the factors in the business enviornment are ever Changing such as Customer and their Prefrences, State of economy, government policies Competent Statergies and so on.

3) Enviornment is Multi-faceted :- There is no single dimension, view are shape of business enviornment. Different factors in enviorment affect different business organisation differently. The same may be an oppurtunity for one and threat for another.

4) Enviornment has a far reaching impact :- Enviornment influnces business organisation to a great extent and over a longer Period of time. Survival, growth and even profitability are greatly influnced by changes in enviornment.

Components of Business Enviornment are listed as below :-

There are two major component of business enviornment i.e.

1) Micro Enviorment
2) Macro Enviorment

Micro Enviornment :- Micro Enviornment is the internal or task enviornment which is specific to an organisation. It affects the working of a business regularly, directly and on short-term basis. It is ~~regularly~~ relatively controllable.

It includes :-

1. Customers or consumers
2. Competetiors
3. Intermedearies
4. Supplier's
5. organisation
6. Market

Macro Enviornment :- It is external or general enviornment which is common to all all business organisation. It affects the working of a business on long-term basis and is relatively uncontrollable. It includes:
1. Demographic Enviornment
2. Economic Enviorment
3. Legal Enviornment
4. Political Enviornment
5. Cultural Enviorment
6. Techonological Enviornment
7. Global Enviornment

Q:- 1.3. Briefly discuss the elements of micro enviornment.

Ans:- The collection of all internal factors affecting the working of an organisation is called micro enviornment. Its elements are :

1. Customers or Consumers : The business runs for fulfilling the needs of its customers in best possible manner. Hence it is very important to study
(a) Who are the customers?
(b) What are their need ?
(c) What is their budget?
(d) What are their preferences and habits?
and so on.

2. Competetiors :- The other similar firms Competing for resources and market are called Competetiors. The working of a business is greatly affected by its Competetiors and hence it is important to know

(a) Who are the Competetiors ?
(b) What are their Objectives ?
(c) What are their Strenth and weaknesses ?
(d) What are their Strategies ?

3. Organisation :- Self analysis is one of the most important aspect of enviornmental analysis by an organisation. It is important to understand once own strenths and weaknesses to achieve the goals efficiently. Specific elements in an organisation are

(a) Financial Resources
(b) Non-financial Resources
(c) Owners
(d) Employees
(e) Board of Directors

4. Market :- The immidiate market and its features which are controlled by business must also be studied more particularly

(a) Size of ~~M~~Market
(b) Growth Potential
(c) Existing Distribution System
(d) Responsiveness (Change in Policy → Eg. → New Product Launch)

and so on

5. <u>Suppliers</u> :- The firms that supply raw materials, machineries, consumables, and all other inputs and services are called suppliers. It is important to study
(a) Their Prices
(b) Quality
(c) Term & Conditions of business and so on.

6. <u>Intermediaries</u> :- Various middle men like agents, brokers, consignees, wholesellers, retailers, departmental stores ~~and~~ are called intermediary. Their services are required to reach the actual customers hence it is important to study
(a) Their cost to the organisation
(b) other term & conditions
(c) Their goodwill in the market
(d) Their strenths and weaknesses

Q:-1.4, Briefly discuss the elements of macro-enviornment of the business?

Ans:- Macro Enviornment is the collection of external sources affecting any business organisation. It is general, external or common to all firms. The elements of macro-enviorment are:-

1. Demographic Enviornment :- It donates the Characteristics of population in an area including age, income level, education level, asset ownership, type of employment and so on.

2. Economic Enviornment :- It refers to the nature and direction of the economy and its forces in which a company operates.

3. Political-Legal Enviornment :- It refers to the state of politics, governance and law in a Country.

4. Socio-Cultural Enviornment :- It refers to all factors like social traditions, values, belives, and state of the society.

5. Techonological Enviornment :- The state of techonology and its development affects many business organisation to a great extent. Techonology may provide new business opportunity or

other hand while making obsolete many existing systems on the other.

6. Global Enviornment :- The world is changing to a global village. Increase in international business (Imports & Exports), migratory habits of work force, multinational operations and similar aspects are providing many oppourtunities and threats to the business organisations.

Q:- 1.5. What is globlisation? why do companies go global? Briefly discuss the ways in which globlisation manifested (increase, raise).

Ans:- When a busness organisation starts its operation in other countries it is called globlisation. It has two dimensions:

(a) Commiting itself with locations around the world and offering new products to new locations.
(b) Ability to compete in domestic market with foreign competetiors

A global company is may be called multinational or trans-national has three characterstics:-

1. It is collection of multiple units located in different countries but linked with common ownership

2. All units have common pool of resources like money, patents, trademarks, techonology etc

3. All units responds to same common corporate strategy

There are several reasons why companies go global :

(i) Elemination of time and distance problem due to changes in communication, transportation and financial markets [Eg:- Foreign Banks]

(ii) Because of flood in developed countries of various products and services. Foreign companies need new markets. [American Mobile Companies]

(iii) Foreign customers of companies are growing hence to open new ~~market~~ units becomes economically justified [Eg:- London customer need Haldiram's Bhujia]

(iv) Cheaper resources available in other countries

(v) To reduce high transportation costs.

(vi) To increase sales volume which is limited in one market.

Globlisation is manifested in following ways:-

1. Configuring anywhere in the world:- A company can locate its operations in different countries on the basis of available resources.

2. Intelinked and Independent Economies:- Globlisation leads to economic welfare because any economy can't work alone as it is linked with rest of the world.

3. Lowering of tariffs:- Restrictions, trade barriers and custom duties are getting lowered resulting in cheaper imports from abroad [Eg:- Cycle Industry]

4. Infrastructural resources at International Prices:- If company wants to compete globally it must procure various resources at minimum prices from whatever country through globlisation [Eg: Japan Imports Steel from America]

5. Increasing trend over Privatization:- Large organisations were earlier run by government but now most of them are privatize; Hence restrictions to run of a business within country is no more.

6. Mobility of Skilled ~~and~~ Resources: Traditionally factors of production were immobile but now labour and capital are easily transferable from one country to the other.

Q:-1.6. What is Kieretsus ?

Ans:- 'Kieretsus' is a Japanees word which means Co-operation. Kieretsus are formed in order to enhance the abilities of individual member businesses to compete in their respective industries. Kiertsus are helpful in reaching greater number of customers
[Eg:- Airways Collaboration, Merger & Acquisitions]

Q:-1.7. What is Competetive enviornment? Discuss Five Forces Model of industry Competetion as given by Porter.

Ans:- The group of business organisations which are producing similar or substitute goods and services are collectively called Competetive enviornment for a business organisation.

Every business must understand Competitive enviornment in order to achieve its goals of Profitability, Stability, Survival & Growth. It should answer the following questions:

(i) Who are the competitors?
(ii) What are their product and services?
(iii) What is their market share?
(iv) What is their financial position?
(v) What are their present and future strateggies?
(vi) What are their strenths and weaknesses?

A very Powerful tool for systemmaticaly analysing the Competitive Pressures and their influnces on the business is given by Michel Porter as 'Five Forces Model' of Competetive analysis

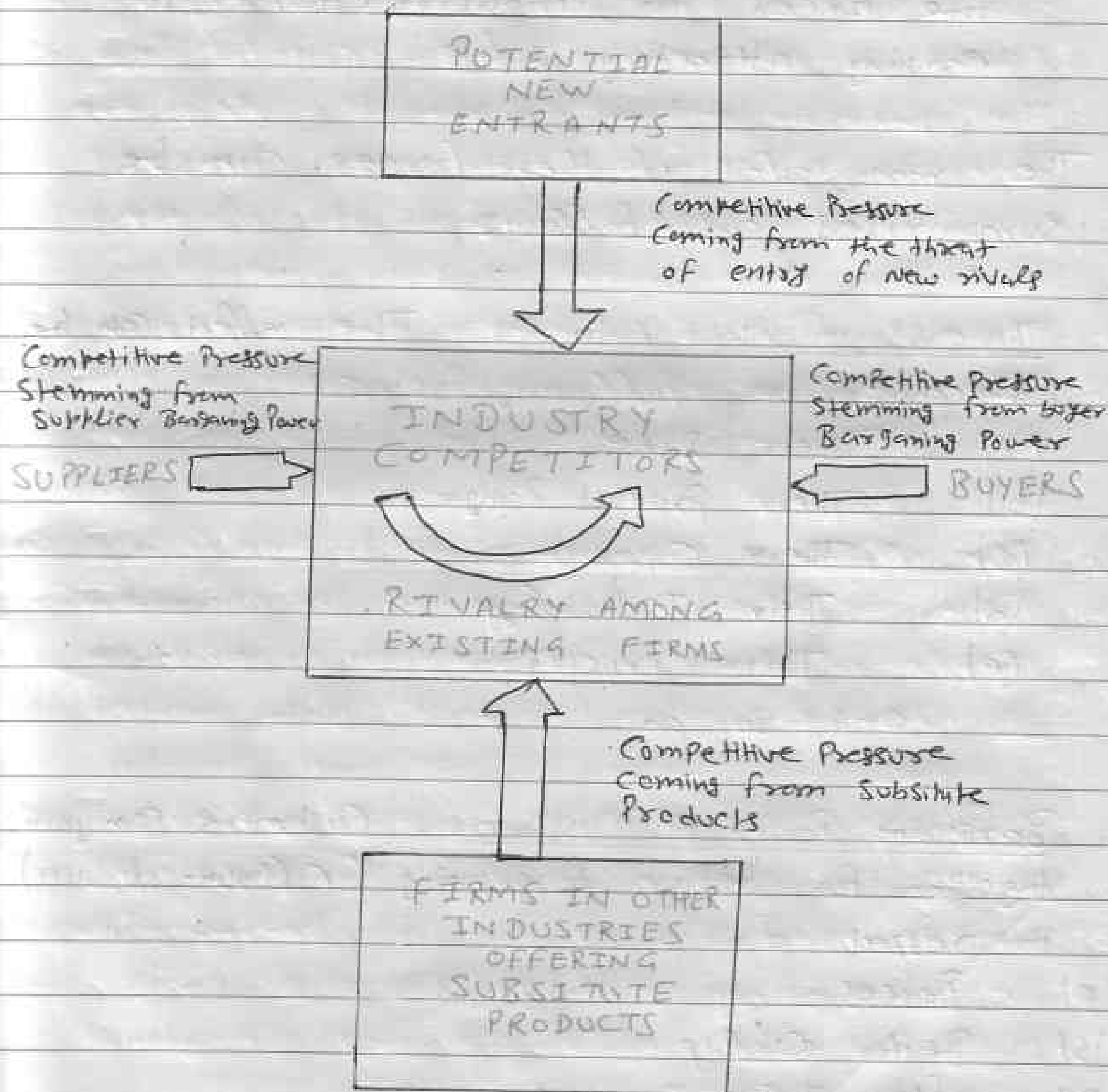

Figure : The Five Force Model of Competition

There are three steps to competitive analysis:

1. Identify the pressure associated with each force
2. Evaluate how strong such pressure are ?
3. Determine whether collective strenths of these five forces in conducive (Helpful) to earning attracting profits.

The main effect of these forces can be summurised as follows:

4. Threats of New Entrants: The effect can be because of following factors:
   - (a) Their Size
   - (b) Their Product Range
   - (c) Their Capacity
   - (d) Their Techonology
   - (e) Their Pricing

   and so on.

2. Bargaining Power of Customers :- Customer's can join together for better bargamming (Collusion- मेल-जोल) in respect of
   - (a) Prices
   - (b) Better Quality
   - (c) After Sales Services
   - (d) Easy Delivery

   and so on.

3. Bargaining Power of Suppliers :- Suppliers can Create
(a) Scarcity of Raw Materials
(b) Bargain for Higer Prices
(c) Change their Terms & Conditions
and so on.

4. Rivalry among Current Players. In respect of
(a) Prices
(b) Market share
(c) Product Features
(d) Better Advertisment
(e) Better Services to Customers
and so on.

5. Threats from Subsitutes :- Even the established products can face Competetion from new subsitutes because of
(a) Better Design
(b) Better Technology
(c) Lower Price [Eg:- Chinees Motorbike]
(d) Better Performance
and so on.